Remarks by Mr Eddie Yue,

Chief Executive of the Hong Kong Monetary Authority

on 23 January 2020

at the announcement of

Exchange Fund's investment results for 2019

(Translation)

Review of the Investment Environment and Performance of the Exchange Fund in 2019

Global financial markets were mainly clouded by two factors during 2019: the slowdown of global economic growth and US-China trade tensions. However, accommodative monetary policies by major central banks lent support to the equity and bond markets. Following a significant correction in the last quarter of 2018, global equity markets rallied in 2019. Most major equity markets recorded substantial gains. As for bond markets, major sovereign bond yields fell markedly while bond prices went up in the first three quarters as a result of monetary easing.

2. With this favourable environment, the Exchange Fund recorded an investment income of HK$247.2 billion in 2019, the second highest on record. Our bond holdings recorded an investment income of HK$114.4 billion while our equity holdings recorded an investment income of HK$122.4 billion, of which HK$100.3 billion was from foreign equities and HK$22.1 billion from Hong Kong equities.

3. Other investments, which primarily consist of private equity and real estate investments under the Long-Term Growth Portfolio (LTGP), recorded an investment income of HK$23.4 billion up to end-September last year. As at end-September, the invested amount and undrawn commitment of the LTGP totalled HK$319.4 billion and HK$225.0 billion respectively. The since-inception annualised internal rate of return of the LTGP was about 12.4% up to the end of September 2019.

4. In addition, while major currencies performed differently against the US dollar last year, the Hong Kong dollar strengthened significantly against the US dollar towards the end of the year. As a result, a negative currency translation effect of HK$13.0 billion was booked after translating the Exchange Fund's foreign currency investments into the Hong Kong dollar. The Exchange Fund recorded an overall investment return of 6.2% in 2019. Specifically, the Investment Portfolio achieved a rate of return of 9.7%, while the Backing Portfolio gained 2.5%.

5. According to the sharing arrangement between the Government and the Exchange Fund, fees on placements by the Fiscal Reserves and placements by HKSAR government funds and statutory bodies were HK$29.4 billion and HK$9.0 billion respectively in 2019. These figures do not include the fee payable to the Future Fund in 2019. The amount will be announced in the HKMA Annual Report 2019 to be published later this year when the composite rate for 2019 is available.

<u>Outlook for 2020</u>

6. Looking ahead, the investment environment in 2020 will remain challenging. With the signing of the first phase of the US-China trade deal, market uncertainties have subsided somewhat, and there are initial signs of stabilisation in the global economy. However, potential risks remain, including for example progress of the next phase of the US-China trade talk, implementation of Brexit and the evolving situation in the Middle East, which can all potentially affect market sentiment.

7. A further concern is that as global interest rates are already at a low level, with some central banks adopting a negative interest rate policy, the room for major central banks to stimulate the economy by means of monetary policy in future has become limited. Since the rally in the equity markets last year was mainly driven by liquidity rather than fundamentals such as favourable corporate earnings and macroeconomic factors, and with asset valuations across markets at stretched levels, it is questionable whether markets can maintain their upward momentum without a strong rebound in the global economy.

8. The HKMA will continue to manage the Exchange Fund prudently. We will monitor market developments closely and adjust our investment strategy as and when appropriate. We will also further diversify our investments to seek higher long-term returns for the Exchange Fund while adhering to the principle of maintaining sufficient liquidity and preserving capital first.